

Trade Area Size

	S.M.S.A.	Cities 10,000 To 50,000	Rural Areas Under 10,000
Income Statement Data			
Number of Outlets	32	57	149
Net Sales Volume	\$2,061,004	\$1,776,221	\$1,107,407
Current Year's Sales vs. Previous Year*	-9.80%	-7.92%	-4.92%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	72.76	74.00	73.35
Margin	27.24	26.00	26.65
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	3.60	3.94	4.00
Salaries — Other Employees	9.66	8.78	8.96
Federal and State Payroll Taxes	.96	.74	.95
Group Insurance	.54	.27	.42
Benefit Plans	.67	.49	.57
Total Payroll and Other Employee Expense	15.43	14.22	14.90
Occupancy Expense			
Heat, Light, Power, Water	.28	.41	.46
Repairs to Building	.26	.38	.38
Rent or Ownership in Real Estate**	2.26	1.74	2.29
Total Occupancy Expense	2.80	2.53	3.13
Other Costs of Doing Business			
Advertising	1.09	.56	1.00
Depreciation (Other than Real Estate)	.56	.68	.76
Insurance (Other than Real Estate or Group)	.67	.90	.83
Taxes (Other than Real Estate or Payroll)	.37	.54	.35
All Other Expenses	5.34	4.95	4.47
Total Other Costs of Doing Business	8.03	7.63	7.41
Total Operating Expense	26.26	24.38	25.44
Net Operating Profit	.98	1.62	1.21
Other Income	1.78	1.49	1.55
Net Profit (Before Income Taxes)	2.76	3.11	2.76
Financial Performance			
Profit on Investment	11.00%	13.62%	11.28%
Active Owner's Return	24.94%	30.89%	27.60%
Current Asset Ratio	2.74x	2.68x	2.73x
Quick Asset Ratio	1.40x	1.35x	1.16x
Total Debt to Tangible Net Worth	60.21%	73.67%	87.05%
Stock Turn Times			
Sales to Inventory Ratio	5.15x	4.63x	3.84x
Average Inventory per Sq. Ft. Sales Area	\$79.42	\$117.28	\$91.54
Net Sales to Accounts Receivable	10.81x	8.60x	10.37x
Net Sales to Total Assets	2.40x	2.52x	2.18x
Net Sales to Net Worth	3.87x	4.38x	4.09x
Net Sales to Net Working Capital	5.10x	4.98x	4.70x
Other Operating Data			
Incoming Freight — % of Purchases	.09%	.13%	.56%
Credit Sales — % of Total Gross Sales	56.73%	62.43%	58.04%
Consumer Sales — % of Total Gross Sales	40.65%	52.04%	61.17%
Selling Area — Square Feet	3,552	3,832	3,631
Sales Per Square Foot — Selling Area	\$580.24	\$463.52	\$304.99
Total Area — Square Feet	24,309	13,354	20,998
Sales Per Square Foot — Total Area	\$84.78	\$133.01	\$52.74
Sales Per Person Employed	\$99,777	\$106,040	\$99,688
Sales Per Customer	\$53.52	\$127.10	\$53.34

*As reported to us by Lumber/Building Material Financial Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Outlet Location

Income Statement Data	Downtown	Suburban	Rural
Number of Outlets	52	118	54
Net Sales Volume	\$1,071,507	\$1,597,802	\$1,212,496
Current Year's Sales vs. Previous Year*	-11.00%	-5.61%	-6.49%
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	72.78	73.57	73.41
Margin	27.22	26.43	26.59
Payroll and Other Employee Expense			
Salaries — Owners, Officers, Managers	4.22	3.99	3.42
Salaries — Other Employees	9.68	8.68	8.94
Federal and State Payroll Taxes	.98	.81	1.00
Group Insurance	.54	.31	.53
Benefit Plans	.22	.72	.45
Total Payroll and Other Employee Expense	15.64	14.51	14.34
Occupancy Expense			
Heat, Light, Power, Water	.41	.39	.45
Repairs to Building	.33	.34	.41
Rent or Ownership in Real Estate**	2.38	1.99	2.25
Total Occupancy Expense	3.12	2.72	3.11
Other Costs of Doing Business			
Advertising	.89	.95	.77
Depreciation (Other than Real Estate)	.82	.64	.85
Insurance (Other than Real Estate or Group)	.78	.84	.90
Taxes (Other than Real Estate or Payroll)	.31	.47	.40
All Other Expenses	4.90	4.70	4.83
Total Other Costs of Doing Business	7.70	7.60	7.75
Total Operating Expense	24.46	24.83	25.20
Net Operating Profit	.76	1.60	1.39
Other Income	1.55	1.43	1.83
Net Profit (Before Income Taxes)	2.31	3.03	3.22
Financial Performance			
Profit on Investment	7.53%	13.82%	13.51%
Active Owner's Return	21.28%	32.03%	27.84%
Current Asset Ratio	2.58x	2.78x	2.44x
Quick Asset Ratio	1.17x	1.35x	1.01x
Total Debt to Tangible Net Worth	69.18%	81.82%	85.28%
Stock Turn Times	3.51x	4.66x	4.04x
Sales to Inventory Ratio	4.82x	6.33x	5.51x
Average Inventory per Sq. Ft. Sales Area	\$75.05	\$98.29	\$117.67
Net Sales to Accounts Receivable	8.58x	10.41x	10.13x
Net Sales to Total Assets	1.93x	2.51x	2.26x
Net Sales to Net Worth	3.26x	4.56x	4.19x
Net Sales to Net Working Capital	4.32x	5.07x	5.34x
Other Operating Data			
Incoming Freight — % of Purchases	.30%	.22%	.75%
Credit Sales — % of Total Gross Sales	60.65%	58.23%	66.53%
Consumer Sales — % of Total Gross Sales	58.69%	52.99%	60.31%
Selling Area — Square Feet	3,912	3,754	3,360
Sales Per Square Foot — Selling Area	\$273.90	\$425.63	\$360.86
Total Area — Square Feet	27,038	16,428	21,450
Sales Per Square Foot — Total Area	\$39.63	\$97.26	\$56.53
Sales Per Person Employed	\$98,425	\$102,586	\$103,599
Sales Per Customer	\$29.77	\$72.13	\$105.49

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Number of Outlets

Income Statement Data	Single Outlet Business	Multiple Outlets Business
Number of Outlets	149	93
Net Sales Volume	\$1,622,706	\$1,039,336
Current Year's Sales vs. Previous Year*	-6.10%	-7.14%
Net Sales	100.00%	100.00%
Cost of Goods Sold	73.72	72.26
Margin	26.28	27.74
Payroll and Other Employee Expense		
Salaries — Owners, Officers, Managers	3.56	5.08
Salaries — Other Employees	9.34	7.84
Federal and State Payroll Taxes	.85	.98
Group Insurance	.41	.36
Benefit Plans	.56	.59
Total Payroll and Other Employee Expense	14.72	14.85
Occupancy Expense		
Heat, Light, Power, Water	.40	.43
Repairs to Building	.39	.26
Rent or Ownership in Real Estate**	2.07	2.21
Total Occupancy Expense	2.86	2.90
Other Costs of Doing Business		
Advertising	.86	.99
Depreciation (Other than Real Estate)	.75	.59
Insurance (Other than Real Estate or Group)	.92	.62
Taxes (Other than Real Estate or Payroll)	.50	.23
All Other Expenses	4.54	5.33
Total Other Costs of Doing Business	7.57	7.76
Total Operating Expense	25.15	25.51
Net Operating Profit	1.13	2.23
Other Income	1.46	1.96
Net Profit (Before Income Taxes)	2.59	4.19
Financial Performance		
Profit on Investment		
Active Owner's Return	11.31%	13.29%
Current Asset Ratio	26.83%	30.76%
Quick Asset Ratio	2.64x	3.53x
Total Debt to Tangible Net Worth	1.25x	1.59x
Stock Turn Times	82.54%	74.84%
Sales to Inventory Ratio	4.42x	3.86x
Average Inventory per Sq. Ft. Sales Area	6.00x	5.33x
Net Sales to Accounts Receivable	\$70.31	\$532.23
Net Sales to Total Assets	10.07x	9.36x
Net Sales to Net Worth	2.39x	2.14x
Net Sales to Net Working Capital	4.36x	3.77x
	5.02x	4.75x
Other Operating Data		
Incoming Freight — % of Purchases	.39%	.17%
Credit Sales — % of Total Gross Sales	58.01%	62.36%
Consumer Sales — % of Total Gross Sales	53.35%	60.25%
Selling Area — Square Feet	3,663	3,691
Sales Per Square Foot — Selling Area	\$443.00	\$281.59
Total Area — Square Feet	16,016	23,669
Sales Per Square Foot — Total Area	\$101.32	\$43.91
Sales Per Person Employed	\$106,652	\$91,172
Sales Per Customer	\$60.43	\$78.57

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Strategic Profit Model

The Strategic Profit Model can be an excellent management tool for lumber/building material retailers. The Model combines the principal elements of a firm's operating statement and balance sheet into a single profit planning equation, evaluating operating performance on the most important criteria — Return on Net Worth.

The Strategic Profit Model clearly identifies, through the use of financial ratio analysis, the three major operational areas that determine the rate of return on net worth: profit margin, asset turnover and leverage.

Several elements that can be controlled by management to improve the level of operational performance are:

Profit Margin

Sales — Increase sales through better displays and advertising, more promotions, addition of new lines, etc.

Cost of Goods Sold — Improve Gross Margin through variable pricing, efficient buying, etc.

Expenses — Trimming expenses is difficult in view of today's high inflation, labor costs, occupancy expense, etc.; however, carefully review each item of expense for areas of cost savings.

Other Income — Take advantage of cash discounts, earnings from revolving or installment credit programs and other investments such as stock ownership.

Asset Turnover

Inventory — Decrease inventory level through a careful review of the levels of all items, trim slow moving items, eliminate obsolete items.

Accounts Receivable — Review status of accounts; if excessively high without the use of a finance charge, customers are operating on the firm's money.

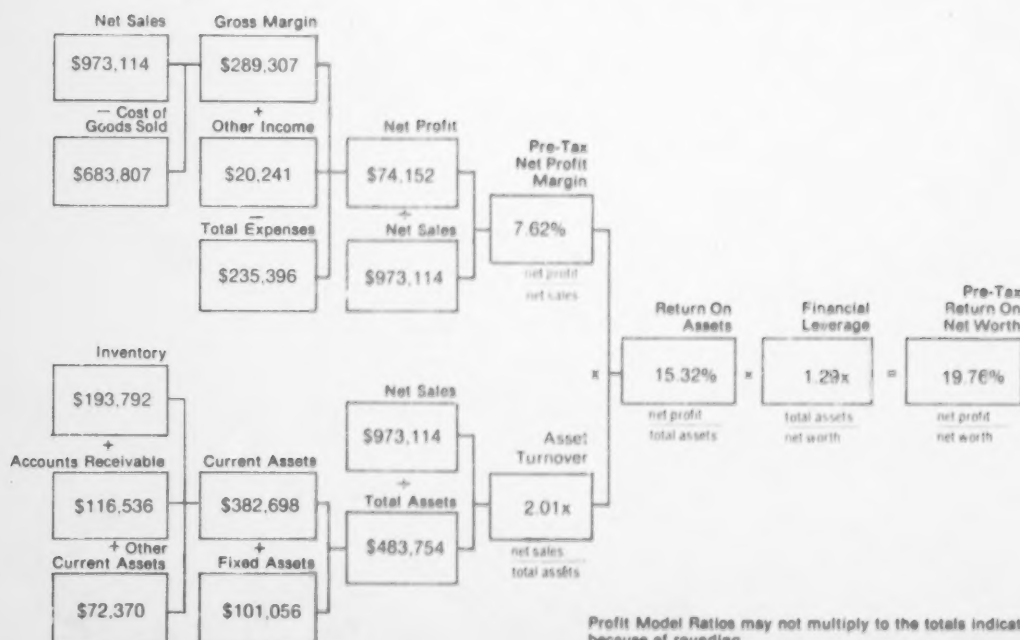
Fixed Assets — Divide Net Sales by Fixed Assets; a substantially lower than industry average ratio indicates excessive investment resulting in idle capacity.

Leverage

The amount of borrowed funds has a number of major implications 1) creditors look to owner supplied funds to provide a margin of safety; 2) by raising funds through debt, owners gain the benefit of maintaining control of the firm with a limited investment and 3) if the firm earns more on borrowed funds than it pays in interest, return to owners is magnified.

Presented below is the Strategic Profit Model for the High Profit Outlets category. Retailers interested in improving their performance should carefully review this model, as it represents the level of excellence achieved by industry leaders.

High-Profit Outlets



Departmental Sales

The Departmental Sales section of the Financial Report offers a variety of information for thirteen major departments carried in the hardline industry's retail outlets.

Hardware — Builders Hardware, Fasteners and Nails, Screen Cloth, Keys, Mail Boxes, Drapery Hardware.

Hand and Power Tools — Hand and Power Tools with Replacement Parts and Accessories.

Plumbing — Plumbing Supplies, Bathroom Hardware, Plumbing Fixtures and Appliances, Heaters, Furnaces, Heating Supplies, Fireplace Equipment.

Electrical — Electrical Fixtures and Supplies, Christmas Decorations.

Paint and Sundries — Paint, Paint Sundries, Wall Coverings and Paper, Window Glass, Craft and Decorating Supplies.

Lumber and Building Materials — Wood Products, Building Materials, Floor Covering.

Lawn and Garden — Lawn/Garden Tools and Equipment, Fertilizers, Insecticides, Fence/Border Products, Hoses, Tractors, Snow Removing Equipment.

Housewares — Cookware, Small Appliances, Giftware, Kitchenware, Cutlery, Galvanized/Plastic/Rubber Goods, Household Furnishings and Cleaning Supplies.

Automotive — Parts and Testing Equipment, Automotive Accessories and Car Care Products.

Major Appliances — Clothes Washers and Dryers, Air Conditioners, Freezers, Ranges, Office Machines, Vacuum Cleaners, Radios, Stereos and TV's.

Other Departments — Any other department not mentioned above — Soft-goods, Groceries, Books, etc.

Shown for each department are the percent of firms handling, the share of net sales, sales floor space, inventory, cost of goods sold, and dollar productivity per square foot of sales area. These data are for **Handling Firms Only**. All stores participating in the survey that did not carry a department were not included in the computation of the average data for that department.

As an example, suppose the Lawn and Garden Department in the Financial Report shows that 90.0% of the reporting stores have a Lawn and Garden Department. The data shown for the Lawn and Garden Department are only for the 90.0% of stores that carry Lawn and Garden Equipment. Thus, **Handling Firms Only** data enable an operator to compare a specific department's data with the averages of other operators who also carry that department.

The Financial Report also presents an **Average Store Profile**. This profile shows data for a store handling all departments and allows a comparison of the relationships among departments within a single operation.

But what of an outlet that does not carry all the major departments. How can the relationships of only carried departments be compared to a total store industry average? The necessary data are contained in the Report — only a simple computation is required.

First, for each department carried, add the industry average percents for Net Sales. The sum of these percentages is then divided into each individual departmental percent. The resulting percentages are the **Average Store Profile** for an outlet carrying only these departments.

As an example, a hardlines retailer carries only four departments — Hardware, Hand and Power Tools, Paint and Sundries and Lumber/Building Materials.

Assume The Financial Report indicates percent of Net Sales for handling firms for each department to be:

Hardware	15.0%
Hand and Power Tools	10.0%
Paint and Sundries	20.0%
Lumber/Building Materials	65.0%

The total of these percents equals 110.0. Now divide the total (110.0%) into each of the individual department's percent:

Hardware	$\frac{15.0}{110.0} = 13.6\%$
Hand and Power Tools	$\frac{10.0}{110.0} = 9.1\%$
Paint and Sundries	$\frac{20.0}{110.0} = 18.2\%$
Lumber/Building Materials	$\frac{65.0}{110.0} = 59.1\%$

The resulting percentages' total should equal 100.0% and are the **Average Store Profile** for an outlet handling only Hardware, Hand and Power Tools, Paint and Sundries, and Lumber/Building Materials. This same procedure can be followed to determine the Average Store Profile for the percent of sales floor space, inventory and cost of goods sold.

Departmental Contribution

Handling Firms Only

Department	% Handling	% of Net Sales	% of Inside Sales Area	% of Inventory	% of Cost of Gds. Sold	\$ Sales Per Sq. Ft.
Hardware	100.0	8.8	23.0	10.7	6.6	171.89
Hand & Power Tools	86.1	3.9	10.5	3.9	4.4	166.80
Plumbing, Heating and Cooling	84.5	5.6	12.5	7.2	8.0	201.33
Electrical Supplies	85.3	3.9	7.9	4.3	5.2	221.72
Paint & Paint Sundries	95.4	8.3	15.0	9.7	9.0	249.09
Lumber	100.0	30.5	NA	27.3	34.3	NA
Building Materials	100.0	35.8	27.9	33.4	28.1	578.14
Lawn & Garden	38.0	2.7	11.1	2.3	3.2	109.45
Housewares	32.6	2.3	6.6	2.3	3.5	132.92
Automotive Supplies	1.6	3.5	5.1	3.0	2.4	161.75
Major Appliances & Home Entertainment	15.5	2.5	4.7	2.1	2.1	203.27
Sporting Goods & Outdoor Equipment...	3.9	5.0	1.8	2.9	5.0	159.48
Other Departments	59.7	6.2	7.8	5.0	6.8	358.30

Average Store Profile

Department	% of Net Sales	% of Inside Sales Area	% of Inventory	% of Cost of Goods Sold
Hardware	8.8	23.0	10.8	6.6
Hand & Power Tools	3.3	9.1	3.4	3.5
Plumbing, Heating & Cooling	4.7	10.2	6.1	6.2
Electrical Supplies	3.3	6.7	3.6	4.2
Paint & Paint Sundries	7.8	14.6	9.2	8.3
Lumber	30.5	NA	27.3	34.3
Building Materials	35.5	25.5	33.3	28.1
Lawn & Garden	1.2	1.9	.8	.7
Housewares	.8	2.2	1.1	1.8
Automotive Supplies	.1	.1	.1	.1
Major Appliances	.1	1.4	.5	1.0
Sporting Goods & Outdoor Living ..	.2	.1	.1	.4
Other Departments	3.7	5.2	3.7	4.8
	100.0	100.0	100.0	100.0

Compensation Study

Compensation data has been gathered for eight types of retail hardgood industry employees:

Department Managers

Employees who have specific responsibility for a given department or departments like the housewares, paint, or electrical supply departments.

Sales Personnel

Employees who spend the majority of their time on the sales floor, ordering and stocking as well as selling.

Office Personnel

Those who spend the majority of their time in the office — accountants, bookkeepers, billing clerks, data processing personnel, etc.

Check-Out/Counter Help

Employees who spend most of their time at the cash register or information counter.

Delivery Personnel

Employees who spend the majority of their time delivering goods and orders — also includes receiving help.

Warehouse Personnel

Employees who spend the majority of their time in the store or central warehouse. Includes fork-lift operators, truckloaders, order processors, foremen and other warehouse personnel.

Yard Personnel

Employees who spend the majority of their time in the lumber yard. Includes material handlers, fork-lift operators, yard foremen and estimators.

Other Personnel

Any other employee not covered in the above categories, including shop-labor, repairmen, watchmen and janitorial personnel.

Even though wage rates differ substantially by locality, the results contained in this section provide many guidelines for comparison. The Compensation Study presents for each employee classification data related to:

- Average number per \$100,000 sales
- % Full-Time
- Annual Salary
- Wage per Hour
- Annual Man Hours Worked

Average Number Per Sales

- Computed by dividing the number of employees in each category by Net Sales stated in thousands of dollars.
- Expressed as a number.
- Shows the number of employees for each category per \$100,000 in sales.
- For example, sales equal \$2 million. First divide \$2 million by \$100,000 = 20.0. Next, divide each category by 20. For example, 8 full-time sales = $8 \div 20 = 0.40$ per \$100,000 in sales.

% Full Time

- Computed by dividing the number of Full-Time Employees in each category by all employees in that category.
- Shows the percentage of employees in each category who are full-time (30 or more hours per week).

Annual Salary

- All wages and bonuses paid.

Wage Per Hour

- Computed by dividing the annual salary, including bonuses, by the total man hours worked.

Annual Man Hours Worked

- Regular and overtime hours less vacation time. Useful when compared to past performance.

Additionally the Compensation Study presents data for three important measures of productivity for all employees and sales personnel:

- Sales per Year
- Sales per Man Hour
- Sales per \$ Payroll

Sales Per Year

- Computed by dividing the total annual Net Sales by the total number of employees or the total number of sales personnel only.
- Expressed in retail sales dollars.
- Measures employee productivity.

Sales Per Man Hour

- Computed by dividing the total annual Net Sales by the total man hours worked for all employees or by the total man hours worked for sales personnel only.
- Expressed in retail sales dollars.
- Measures employee productivity.
- Useful when compared with past performance results. The ratio gives an indication of the sales produced per hours worked.

Sales Per \$ Payroll

- Computed by dividing the total annual Net Sales by the total annual payroll for all employees or by the total annual payroll for sales personnel only.
- Expressed in retail sales dollars.
- Measures employee productivity.
- The ratio measures sales generated per dollar of payroll expense. Again useful when compared to past performance.

Additional data gathered on Owners, Officers and Store Managers is available on a confidential basis from NRHA or your regional Hardware Association. To obtain your copy, request The Lumber/Building Material Financial Report Owner, Officer and Manager Compensation Report on your firm's letterhead.

All Outlets

Type of Employee	Average Number Per \$100,000 Sales	% Full Time	Annual Salary Includes Bonus \$	Wage Per Hour \$	Annual Man Hours Worked
Department Managers	10		18,669	8.42	2,217
Sales — Full-Time	19	78.0	13,284	6.24	2,128
Sales — Part-Time	11			4.67	956
Office — Full-Time	12	79.8	10,728	5.37	1,997
Office — Part-Time	09			4.63	799
Check-Out — Full-Time	07	80.8	9,282	4.75	1,953
Check-Out — Part-Time	07			3.71	742
Delivery — Full-Time	13	91.1	11,690	5.45	2,143
Delivery — Part-Time	15			4.07	890
Warehouse — Full-Time	09	77.5	10,420	5.01	2,078
Warehouse — Part-Time	10			3.14	742
Yard — Full-Time	15	78.3	11,009	5.26	2,095
Yard — Part-Time	09			3.72	721
Other — Full-Time	09	81.7	12,174	6.22	1,956
Other — Part-Time	09			4.10	501
All Full-Time Employees*	84	80.9	13,742	6.58	2,090
All Part-Time Employees	70			4.21	798

Productivity

Type of Outlet	Sales Per Year		Sales Per Man Hour		Sales Per \$ Payroll	
	All Employees** \$	Sales Personnel Only \$	All Employees** \$	Sales Personnel Only \$	All Employees** \$	Sales Personnel Only \$
All Outlets	98,123	417,013	53.34	225.19	6.68	37.22
Sales Volume Size						
Under \$500,000	70,186	205,676	40.21	116.79	6.44	24.76
\$500,000 to \$999,999	78,741	355,514	44.08	192.24	3.63	37.27
\$1,000,000 to \$1,999,999	97,026	399,867	51.22	214.38	7.50	33.38
\$2,000,000 or more	120,662	587,952	65.71	312.95	8.93	46.51
Sales Area Size						
Under 3,000 Sq. Ft.	87,546	340,745	50.51	190.15	7.71	34.84
3,000 to 4,999 Sq. Ft.	98,375	449,530	52.24	240.45	7.80	37.82
5,000 Sq. Ft. or More	102,535	447,152	54.27	233.19	5.39	37.96
Trade Area Size						
S.M.S.A.	105,204	383,727	55.26	208.01	7.56	31.71
Cities -- 10,000 to 50,000	96,476	490,670	51.87	260.68	8.22	46.35
Rural Areas Under 10,000	97,252	382,933	53.97	207.68	5.87	33.93

*Excluding Owners, Officers and Store Managers
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New Outlet Data

To determine the feasibility of a new consumer-oriented lumber/building material outlet four distinct planning phases are required:

- Preliminary Financial Analysis
- Market Analysis
- Formal Financial Analysis
- Development of Outlet Image

Phase I

As the ultimate criterion of feasibility for a proposed lumber/building material outlet will be profitability, the planning process should begin with a preliminary financial analysis.

The investment required for a new retail outlet can range between \$25 to \$60 per square foot, depending on locality, size, occupancy position and personal preferences.

Based on the desired size of the operation, utilize the industry operating averages presented in NRHA's Lumber/Building Materials Financial Report to estimate sales volumes, gross margins, salaries and other costs of doing business to project Net Profits and Return on Investment for the proposed operation. An important fact to remember is there is a direct correlation between the square feet of sales area, average dollar inventory and the attainable sales volumes.

If the preliminary financial analysis meets predetermined individual requirements in attainable salary levels, Net Profit and Return on Investment, the second phase of planning may be initiated.

Phase II

Site Location

The market area to be served by the proposed home center operation will be primarily determined by the selected site location. Nine major aspects of varying importance determine the worth of a given retail home center location. These aspects are listed below.

Shopping Pull — Businesses in the area which would help draw consumers to the area.

Parking Facilities — Adequate parking requires two to two and a half square feet of parking area for every square foot of selling area.

Walk-In Traffic
Traffic Count and Patterns
Accessibility
Visibility
Congestion

Shopping Ease — The ability for the consumer to get out of the outlet from the point of check-out to his or her auto with a large item.

Ingress and Egress — The ease with which customers can drive to or from the street to the parking area.

To select the best location, each prospective site should be assessed on the nine aspects to determine overall worth as a retail location. A subjective analysis of all aspects for each potential site available combined with an analysis of the cost for property and improvements will provide the basis for selecting the prime site location(s) for further analysis.

Primary Trade Area

After the selections of site(s), for the purpose of analysis it is necessary to bring the market area to be served to manageable proportions. Therefore a Primary Trade Area for the selected site location must be defined. The Primary Trade Area represents the geographical boundaries from which the majority of do-it-yourself consumer business for the proposed operation will be derived. These geographical boundaries of the Primary Trade Area are affected by many variables. The most influencing variables are the proposed operation's size and merchandise mix, number of consuming residents required to support the operation, driving time to site location, the proximity of retail activity concentrations and natural or man-made barriers.

Size — The ability to draw consumers from a distance to a retail outlet is directly related to the size of the display area and the number, depth and breadth of departmental lines carried.

Number of Consumers — A 2,500 square foot outlet requires 7,500 to 10,000 consuming residents; a 5,000 square foot outlet requires 15,000 to 20,000 consuming residents.

Driving Time — Typically a 2,500 square foot outlet can draw consumers within a 5 to 10 minutes driving time, a 5,000 square foot store drawing within 10 to 15 minutes driving time.

Other Retail Stores — Proximity to highly active retail areas helps to share the burden of drawing consumers to the area for shopping purposes.

Barriers — Barriers affecting accessibility to a selected site location can dramatically alter the boundaries of the Primary Trade Area.

The feasibility of a new outlet within a given Primary Trade Area is dependent on two major factors, the demographic characteristics of the consumers and the number and strength of the competitors.

Consumer Analysis

From past NRHA research it has been learned that demographic variables relating to population growth rate, income levels and incidence of owner-occupied housing are the most critical variables in predicting a consumer's propensity to spend on hardlines.

Population Growth Rate — A viable environment for a new lumber/building material outlet requires that the Primary Trade Area experience a minimum of .5 to 1.0 percent annual increase in population with the preferred rate being 2.0 percent or more.

Income Levels — Consumers with middle to upper-middle income have the greatest propensity to purchase hardlines, lumber and building materials.

Type of Housing — Consumers who own their own homes will spend as much as 4 to 5 times more per year for hardlines, lumber and building materials than renters, mobile home or condominium owners.

Competitive Analysis

Although within a given Primary Trade Area consumer demographic variables may indicate a healthy environment for a new outlet, feasibility for the proposed operation cannot be determined without an analysis of the competition.

Depending on merchandise mix, primary hardline and lumber/building material sales represent approximately 70 to 80 percent of the total sales volume for an average consumer-oriented lumber/building material outlet. Primary hardlines include: hardware, tools, electrical and plumbing. As the primary hardlines and lumber/building materials represent the substantial majority of sales for an outlet, an analysis to determine the feasibility of a new outlet should focus on these lines.

Retail outlets which carry competitive lines and would be likely to be shopped by Primary Trade Area residents should be visited and assessed. These retail outlets include all hardware stores, home centers, lumber/building material outlets, mass merchandisers, discount stores, variety and drug stores and specialty stores.

The retail competitors should be delineated by location and preferably spotted on a map. All competitive departmental lines should be assessed on a rating scale. A scale of 1 to 5 has been utilized with a rating of 1 indicating that the retailer offers a minimal selection of items, and a 5 indicating an excellent departmental offering in both depth and breadth of line.

In this illustration the lawn/garden and paint departments are offered in depth by several strong competitors, indicating a possible market saturation in these lines. Plumbing has a fewer number of competitors carrying, and no competitor offers a strong plumbing departmental presentation. The hardware, tools and electrical departments have many competitors, but only a few strong competitors.

To be a consumer-oriented lumber/building material outlet the merchandise mix must include all primary hardlines plus lumber and building materials. However, due to the competitive structure of the Primary Trade Area and surrounding Market Area, strategic market thrust can be obtained by offering above average selections in departmental lines that are in poor supply.

In the illustration, based on the competitive situation and desired store image, the proposed operation should plan the following merchandise mix: Hardware — average to above average; Hand Tools — average; Electrical — average to above average; Plumbing — above average; Lawn/Garden — below average-heavy seasonal promotion only; Paint — average to below average; Paint Sundries — average to below average; Lumber, Building Materials — average to above average.

Phase III

If the analysis indicates a positive environment in both the consumer and competitive characteristics of the Primary Trade Area, a formal financial analysis should then be developed. Unlike the preliminary analysis, this analysis should include the actual cost of land, building fixtures and equipment to determine the total investment required.

The analysis should also include a proforma income statement to estimate the profits (losses) for the first three years of operation. Wherever possible actual operating expenses should be utilized — rent, taxes, utilities etc. For those expense items that cannot be determined, NRHA's Lumber/Building Materials Financial Report will provide guidelines for estimation. Dependent on the projected profit (losses), total capital requirement including working capital will be determined.

One very important factor to remember is that a typical new outlet will take three years to reach maximum productivity and efficiency or what is termed "outlet maturity". Therefore do not be overly optimistic on setting performance goals.

Phase IV

Through a combined analysis of all planning phases, the consumer outlet image is developed.

Owner's Economic Constraints

Customer Identification

Posture of Major Competitors

will determine

Size of Facility

Merchandise Mix

Service Level

Price Statement

will determine

Outlet Layout, Design and Decor

which relays

Consumer Outlet Image

Illustration

	Hdwe.	Tools	Elec.	Plbg.	Lawn/ Gdn.	Sund- ries	Lmbr.	Blg. Matl.
Site Area								
Variety Store	1	1	2	1	3	2	1	
Drug Store			1		1			
Downtown								
Home Center	5	4	5	4	4	5	5	3
Paint Store						5	2	
Auto Supplies		1	1					
East								
Hardware Store	4	3	4	2	5	3	3	
K-Mart	4	5	3	3	5	5	4	2
Lumber Outlet	2	1	2	2	1	3	3	
South								
Sears	4	5	4	4	5	5	4	2
Penney	3	4	3	3	4	4	3	
Sherwin Williams					5	5		
Gift Shop								
Super Drugs	2	1	2	2	3	2	1	
Total	25	25	27	21	36	39	26	7
# Of Competitors	8	9	10	8	10	10	9	3

Affiliated Associations

California Retail Hardware Association

William R. Maze
122 Ninth St.
San Francisco, CA 94103
(415) 552-0536

Canadian Retail Hardware Association

Thomas M. Ross
6800 Campobello Road
Mississauga, Ontario, Canada L5N 2L8
(416) 821-3470

The Hardware Association of the Carolinas

Eleanor Brigance
412 Louise Avenue
Charlotte, NC 28204
(704) 332-3141

Illinois Retail Hardware Association

John C. Friel
215 W. Prospect Ave
Mt. Prospect, IL 60056
(312) 392-8700

Indiana-Kentucky Hardware Association, Inc.

Richard L. Russell
4120 N. Keystone
Indianapolis, IN 46205
(317) 547-5471

Intermountain Association

R.M. Henderlinder
2230 Main St.
Boise, ID 83706
(208) 342-7779

Iowa Retail Hardware Association

John C. Phillips
520 35th St.
Des Moines, IA 50312
(515) 274-0401

Michigan Retail Hardware Association

Thomas A. Aitken
4414 S. Pennsylvania Ave.
P.O. Box 30085
Lansing, MI 48909
(517) 394-1710

Mid-South Hardware Association

W.F. Davis
2500 Hillsboro Rd
Suite 103
Nashville, TN 37212
(615) 383-9037

Minnesota-Dakotas Retail Hardware Association

Ray C. Anderson
3033 Excelsior Blvd.
Minneapolis, MN 55416
(612) 929-4691

Montana Hardware and Implement Association

Avis Ann Tobin
506 Lamborn
P.O. Box 4459
Helena, MT 59601
(406) 442-1590

Mountain States Hardware and Implement Association

Max L. Sauder
1380 Carr St.
Lakewood, CO 80215
(303) 233-2101

New England Hardware Dealers Association

Chester C. Putney
Lakeside Office Park, Door #5
591 North Ave.
Wakefield, MA 01880
(617) 246-1510

New York State Retail Hardware Association

Fred Suman
6500 Joy Road
East Syracuse, NY 13057
(315) 437-7318

Ohio Hardware Association

Joe B. Bailey, Jr.
1540 W. Fifth Ave.
P.O. Box 1828
Columbus, OH 43216
(614) 486-5278

Pacific Northwest Hardware and Implement Association

Mac Smith
333 S.W. Fifth Ave
Room 606
Portland, OR 97204
(503) 226-1641

Pacific Southwest Hardware Association

Otto H. Grigg
117 South Clementine
Anaheim, CA 92803
(714) 778-2050

Pennsylvania and Atlantic Seaboard Hardware Association

J. Wayne Tisdale
949 East Park Dr.
Harrisburg, PA 17111
(717) 564-7011

Southern Association

R.L. Ricker
2111 Smith St.
Orange Park, FL 32073
(904) 264-7525

Southwest Hardware and Implement Association

R.B. Allen
4629 Mark IV Parkway
Ft. Worth, TX 76106
(817) 625-5562

Hardware Association of the Virginias

Leonard Holdren
1906 N. Hamilton St.
Richmond, VA 23230
(804) 358-6511

Western Retail Implement and Hardware Association

J. Keith Melvin
638 W. 39th St.
P.O. Box 19264
Kansas City, MO 64141
(816) 561-5323

Wisconsin Retail Hardware Association

Robert L. Gast
1421 Strongs Ave
Stevens Point, WI 54481
(715) 346-7600